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# Vietnam: Economic Strategy and Economic Reality

Adam Fforde

**Abstract:** The paper examines the nature of the growing Vietnamese economy and its changing structural characteristics and contrasts this with two core elements of official thinking. The first element is the slogan of ‘industrialisation and modernisation’ (IM) and how this sits with the rather fast current growth in the services sectors, given the issues of transitioning through the recently reached ‘middle income status’. The second is that of “a socialist-oriented market economy” (SOME) with reference to its origins, the nature of debates around it and its positive and negative implications for Vietnam’s development. Our basic conclusions are that IM is misplaced, as it ignores services and is out-of-date, and the SOME has largely been a somewhat confused and transparent fig-leaf for support for essentially private commercial interests associated with certain state conglomerates. Recent changes around the 2016 XIIth Congress suggest that lessons are being learned by some elements in the Party.

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**Keywords:** Vietnam, economic growth, politics, political economy, industrialisation, development policy

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## Introduction

Between its VIIth and XIIth Party Congresses (1991 and 2016), Vietnam clearly experienced some major changes. Whether the country ‘really changed’ is the stuff of poetry and a familiar part of the discussions of any political community about what has happened and so what might happen. A core part of this, again in a quite familiar way, are arguments about causality – to what or whom can authorship of these changes be ascribed – and which arguments are deemed good and which are not. This paper<sup>1</sup> engages with such deliberations by contrasting an examination of some empirics with how the Communist Party of Vietnam (CPV) has publicly characterised change, and its role within change as a central author. The former uses the standard measures of economic growth, as presented in the National Income Accounts, based on standard methods that were introduced in the early 1990s as Soviet methods of measuring levels of economic activity were discarded. The latter uses two core slogans: ‘industrialisation and modernisation’, or IM (*Công nghiệp hóa - hiện đại hóa*); and a ‘socialist-oriented market economy’, or SOME (*Kinh tế thị trường định hướng xã hội chủ nghĩa*). I tend to agree with Gainsborough’s seminal 2007 article, which argued that, by that time, CPV politics had little to do with policy because discussions posed in those terms were the clothes of factional rivalries.<sup>2</sup> However, this is an academic study and whilst Pew surveys suggests that the Vietnamese people greatly like their market economy, this tells us rather little about what they think has caused change over the past generation.<sup>3</sup> Given the lack of political reform, it is difficult to solve this issue in any effective or efficient way, as disempowered populations cannot easily show what they really want. My

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- 1 This paper draws upon a paper given at the Vietnam Forum 2016, entitled “Vietnam: Thirty Years Of Doi Moi And Beyond”, held April 2016 at the ISEAS-Yusof Ishak Institute, Republic of Singapore, as well as presentations and discussions subsequently in May 2016 in Hanoi. I am grateful to everyone who commented on the paper, and to an anonymous referee.
  - 2 “[...] politicians in Vietnam generally do not distinguish themselves from each other on policy lines, although struggles for control over resources are sometimes dressed up in policy terms” (Gainsborough 2007: 20).
  - 3 Goertzel reports, based upon the Pew Global Attitudes Project, that: “Brazilians are divided in their opinions about the market economy, with 56% in the Pew survey agreeing that “most people are better off in a free market economy, even though some people are rich and some are poor”. Only 26.7% of the Argentines shared this sentiment in the midst of their economic crisis, as compared to 72.1% in the United States and a remarkable 95.4% in Vietnam, 43.6% in India, 54.2% in Bolivia and 62.8% in Venezuela” (Goertzel 2006: 4–5).

general conclusion is that the economic evidence presented strongly suggests that neither of the two core slogans have much credibility.

## From the VIIth to the XIIth Congresses – Economic Change

### The Data Tells a Story – But What Story?

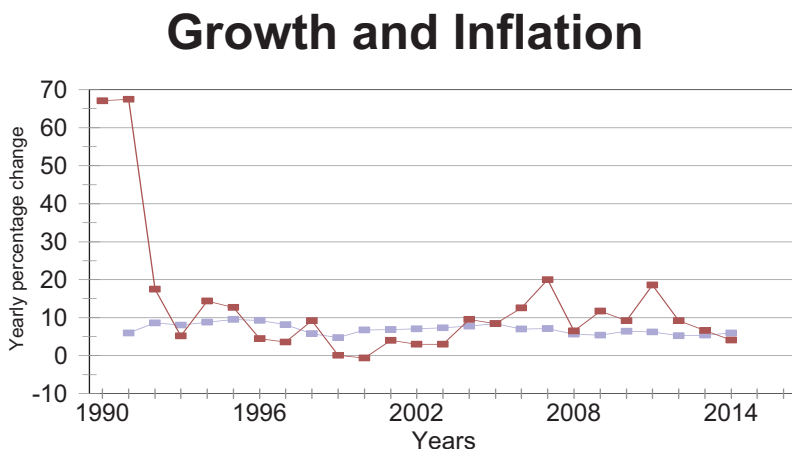
According to standard modern statistical measures, Vietnam's economic performance since the emergence of a market economy has been good.<sup>4</sup> Figure 1 shows GDP growth and inflation. From the early 1990s growth clearly accelerated to just below 10 per cent annually, dipping around the time of the Asian Financial Crisis, but then recovering. From 2008 it slipped to a rather lower level. Inflation followed a similar path. The acceleration of GDP growth around 1992 coincided with a steep fall in the rate of inflation, and the slowdown around 2008 coincided with an acceleration of inflation, which was eventually brought back down to single-digit levels in 2013.

At these rates of change, things approximately double every decade. In these measures, Vietnam entered so-called 'middle income' status around 2009. High rates of investment mean that the physical infrastructure usually changes greatly, and so does what people do.

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4 I have not surveyed the existing literature on the Vietnamese economy, partly due to space limitations, partly because citations can be made to my own work, and also because much of the literature exhibits strong belief in industrialisation as an essential driver of growth, a view that the present paper challenges. Clearly, a literature survey is needed, and if this paper's core observation is taken seriously, we also need more research on Vietnam's economic growth since the early 1990s. However, we may also be facing a paradigm shift, and experience suggests that in such limbic states arguments often arise to ignore, in some way, what appear as anomalies (Fforde 2016a) reports that there is evidence that this may be occurring. Fforde (2005) reported an analogous rejection, by perhaps three-quarters of the citations of it, of the conclusions from the application of robustness- testing techniques that concluded that there are almost *no* robust relationships between policy settings and growth performance globally. Similar trends can likely be found in arguments that, in Vietnam, manufacturing exports have been important; these arguments ignore the lack of rapid growth in value-added in such sectors, implying that they rely heavily upon imports of materials that are then inputs to the factories. Fforde (2016c) discusses the issue of confirmation bias in empirical research.

Figure 1. GDP Growth and Inflation



Source: GSO NGTK various years.

This underpins a historical division of the period that I chose for analytical and expository purposes (another periodisation may offer better alternatives).

### *From the very early 1990s until around 1997*

During this period there was a failed attempt to generate, on the back of a certain residual political authority at the peak of the Party, a new development ideology and policy suited to a market economy ‘with a socialist orientation’. With the retirement of Vo van Kiet and Do Muoi in 1997, the rural unrest in Thai Binh – which showed the extent of corruption in the use of development resources, and combined with the Asian Financial Crisis – ended this period. During this period, factor markets (land and labour especially) emerged clearly and there was no clear resolution of the messy and informal nature of state capital.

### *From around 1997 until around 2007*

This can be described as a period of political ‘laissez-faire’. It was a time of macroeconomic stability, the emergence in significant numbers of FDI and private (in the legal sense) employment, and a divorce of politics from policy. State workers ceased to have a favoured position and learned, like those in other sectors, that law had little significance except as a platform to seek to exert pressure on party and state officials –

courts and police had no particular interest or capacity to generate “rule of law” (Tran Ngoc Angie 2013).

### *From around 2007 until the XIIth Congress in 2016*

Near the start of this period, Vietnam secured ‘middle-income status’. Around 2007, the State Bank was prevented by politicians close to certain large state owned enterprises (SOE) conglomerates from sterilising liquidity created by its interventions in the foreign exchange markets to manage large capital inflows; this led to a period of macroeconomic instability in which multiple exchange rates and capital costs created levels of rents that had not been seen since the hyperinflation of the late 1980s. This had pervasive and destructive effects on areas such as credits to SMEs, levels of budget funding for rural development, funding for public health and education, waste in public investments, etc., which greatly reduced the remaining public confidence in the regime. However, macroeconomic stability was restored by around 2012–2013 and economic growth recovered, albeit well below earlier levels. The period ended with the 2016 XIIth Congress, which saw Party power over the executive restored. This loss of macroeconomic stability led to the question that Leung (2015) asked, stressing concerns over the political will to continue with reforms:

[...] questions are being raised about the political will of the [Vietnamese] government to make the needed structural reforms in such a way that benefit the economy rather than powerful insiders. [8]

The question that then arises – which is the focus of the present paper – is whether the foundational elements of development strategy, as expressed in IM and SOME, make sense.

Tables 1 and 2 show changes in the recorded pattern of employment, which is measured, as the NIA does, in terms of employment that generates incomes for the three factors of production: land, labour and capital.

Table 1. Structure of Work Force, 1991 (in Thousands)

Sector	A. Numbers	B. %
Industry	3,394	11.0
Construction	820	2.6
Agriculture and forestry	22,483	72.6
Transport and communications	526	1.7
Trade and supply	1,719	5.5
Other material production	30	0.1
Housing, public services and tourism	296	1.0
Science, education and culture	899	2.9
Health, social insurance and sport	310	1.0
Finance, etc.	118	0.4
State management	240	0.8
Other non-material	139	0.4
TOTAL	30,974	100.0

Note: The data is based upon Soviet statistical methodology.

Source: GSO 1993.

The table shows a picture of a Vietnamese economy, as growth started to accelerate, that is strongly oriented towards agriculture; it has some industrialisation and a services sectors<sup>5</sup> apparently mainly to do with trade, supply and communications on one hand, and public services such as education and health on the other. However, this picture arguably obscures the real economic picture; for example, by treating rural farming families, with their traditional heavy engagement in trade, as ‘agricultural’. As non-Soviet Western statistical methodology is applied, we get the following picture (in Table 2).<sup>6</sup>

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5 In this paper, by ‘services’ I mean ‘tertiary sectors’ – neither industry and mining, nor agriculture forestry and fisheries.

6 It appears that the Vietnamese GSO did not manage to sort out its employment data measured on the new basis until the end of the 1990s, later than the production of NIA.

Table 2. Structure of Employed Work Force, 2000 and 2014 (prelim, in Thousands)

Sector	2000		2014		Change Numbers
	Numbers	%	Numbers	%	
Agriculture, forestry and fishing	24,481	65.1	24,409	46.3	-72
Mining	256	0.7	253	0.5	-3
Manufacturing	3,550	9.4	7,415	14.1	+3,865
Electricity, gas and water (*)	83	0.2	248	0.5	+165
Construction	1,040	2.8	3,313	6.3	+2,273
Trade and minor repairs	3,897	10.4	6,652	12.3	+2,728
Hotels and restaurants (**)	685	1.8	2,301	4.4	+2,755
Transport, storage and communications (***)	1,174	3.1	1,953	3.5	+779
Financial intermediation	75	0.2	352	0.7	+277
Science and technology (#)	19	0.05	251	0.5	+232
Real estate etc.	64	0.2	158	0.3	+124
Public administration and defence (2000)	376	1.0	n/i		
Administration and support services	n/i		262	0.5	
Education and training	995	2.7	1,860	3.5	+865
Health and social work	226	0.6	493	0.9	+267
Recreation, culture and sport	132	0.4	286	0.5	+154
Party, mass organisations and associations	64	0.2	n/i		
Party, mass organisations, defence and security	n/i		1,697	3.2	
Community, social and private household (##)	493	1.3	175	0.3	-318
Other service activities	n/i		764	1.4	
TOTAL	37,610		52,745		+15,135

Note: 'n/i' = 'not included'. (\*) – includes air conditioning. (\*\*) In 2000, called 'Hotels and restaurants'; in 2014, the category is 'Accommodation and food service activities'. (\*\*\*) In 2014, I have combined 'Transportation and Storage' with 'Information and communication'. (#) For 2014 I have given the entry for 'Professional, scientific and technical activities'. (##) I am not sure how this data is created. I thank an anonymous reviewer for arguing that many small private household businesses in Vietnam may be involved in manufacturing; however, like other arguments (such as those that seek to argue from rapid growth in manufactures exports to rapid growth in manufactures value-added – ignoring the sectoral GDP data that suggests rapid growth of imports of inputs), this appears as 'anomaly-attacking' and an attempt to defend existing doctrine in familiar ways. Table 3 clearly shows how developing countries have, on average, not been industrialising.

Source: GSO 2008: Tables 17 and 18 and GSO 2015: Tables 53 and 54.

It is clear that this is *not* a picture of industrialisation. Whilst some 15 million jobs were created between 2000 and 2014, manufacturing and



mining only generated about 3.9 million jobs. How is meaning given to such data?

## The Economic Gaze

In the NIA system the economy is conceived of as fundamentally divided by different categories of output: primary (agriculture, forestry and fishing), secondary (industry which includes mining) and tertiary services. Like the basic economic view that sees economic activity as activities that generate rewards paid on markets to factors of production (rents, wages and salaries, profits), this conception largely reflects the economic development experienced by many now-rich countries up until, say, the 1960s. There are alternatives; for example, dividing an economy by transaction type,<sup>7</sup> and rewards to economic activity as including imputed payments for non-marketed activities such as home-based childcare. A host of different imagined realities follow from such decisions.

From the Soviet Union, drawing on Marx, the core vision of how economic growth happens is through the expanded production of industrial investment ('capital') goods (Group A) that drive expanded production of the rest of the economy through increases in the capital stock, including in the rest of industry (Group B) (Stalin 1951).

Western 'production function' approaches are now somewhat dated but still taught in basic development economics courses, and I believe they have a pervasive impact. These approaches see growth also as largely based upon the accumulation of capital through investment (Fforde 2013: chapters 7, 8). Human capital can be included without changing the basic metaphor greatly.

Both of these visions can be said to have decided to view an economy as something that 'turns stuff into stuff', and industry as a meaningful category is then constructed accordingly. The 'factory' offers a ready basis for an aggregate metaphor in which workers and technology embodied in machines combine to produce industrial products, primary sectors such as agriculture feed them (workers and machines), and services sectors provide certain necessary services, with what is actually

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7 Indeed, the Vietnamese for 'services' – *dịch vụ* – may be glossed as those activities that enable or embody *transactions* (*thus giao dịch* – transactions generally, *mau dịch* – trade transactions, *phiên dịch* – translations). I find the semantics confusing. Comments on this would be welcome, not least because equivalent Chinese terminology appears to be different and stresses the subordinate nature of services, seeming to prefer the term that in Vietnamese appears as *phục vụ*. All of these Vietnamese words are of Chinese origin.

supplied determined in the growth process by the logic of industry. One can then conceive of education, health, transport, insurance, finance (and tourism) as serving industry.

The languages (both English and Vietnamese) perhaps mark this – a servant is subordinate. Thus, we find Stalin in the early 1950s and the World Bank in its famous 1993 *Miracle* study agreeing that industrialisation is and therefore should be the core active driver of economic development (a core label of success, ‘NIE’, stands for ‘newly industrialising economies’) (Stalin 1952; World Bank 1993). Indeed, Stalin and the World Bank agree that the core issue in terms of state action is how this will be made to happen, though the answers are very different. Both agree that the author of development is the state: for Stalin, a hyper-active and hyper-intrusive one; for the World Bank, a technocratic-guided and market-friendly one that deals with market failure, does not intervene in ways that create or exacerbate market failures, and provides a stable political environment (Stalin would have agreed with this). Both the World Bank and the Soviet Union presented such visions as relatively universal.

There are two core problems with such approaches. The first is that there are statistically almost no robust relations between policy and economic performance viewed globally; that is, in terms of categories such as “export-oriented industrialisation” (Fforde 2005; Levine and Zervos 1993). This means at the least that the data does not support any single vision of what economic development is, or how it can be done. This can be taken to imply that economic statistics do not have stable referents globally: GDP is essentially a different thing in different places.

The second problem is that, according to the data, neither Vietnam (as we have seen) nor indeed most other developing countries have, been ‘industrialising’ in the historical period covered here (from the VIIth to the XIIth Congresses). In fact, these countries have been servicing (see Table 3 below), and the countries that have grown faster tend to have been servicing more (Fforde 2016a). A lot more research is needed, but this pattern does not mean that, with such fast rates of growth people are moving from poorly paid agricultural jobs to poorly paid service jobs. With rapid growth in GDP, service jobs must generate enough added value to allow such large services sectors compared with GDP to be part of rapid growth outcomes. Table 3 shows the global picture.

Table 3. Structural Change in Developing Countries' Economies, 1991–2013

	Percentages of countries	Change in the measured share of GDP in the whole economy	
		A. Services	B. Industry
Group 1 (less than 100% growth)	25%	+2.1%	+0.6%
Group 2 (100–200% growth)	48%	+6.5%	+1.4%
Group 3 (200–300% growth)	15%	+7.5%	-0.7%
Group 4 (more than 300% growth)	10%	+10.8%	+0.1%
All countries		+6.2%	+0.5%

Note: Averages are unweighted; data is for individual countries. Growth defined as change in current PPP US dollars.

Source: World Bank n.y.

For Vietnam, the service GDP share rose from 38 per cent in 1992 to 43 per cent in 2013. In addition, whilst the share of the broad category 'industry' over the same period rose from 23 per cent to 29 per cent, this growth was largely due to increased mining output. In 2013 mining – included in the industry statistical definition – was 12 per cent of GDP yet below 5 per cent in the early 1990s; this means that the non-mining 'industry' share of GDP fell from around 18 per cent in the early 1990s to around 17 per cent in 2013 (GSO 1993: Table 18 and GSO 2014: Tables 66 and 68). If one cares not to believe this data then the point to bear in mind is that it is the public face of quantified economic change. If someone makes a speech implying that successful 'industrialisation' was the core, central driver of change, then that person must either argue that the fall in agriculture's share and the rise of services' share were dependent upon industry, likely avoiding the issue that industry only grows as a share of GDP if you include mining, or find some other way to argue the point.

Table 4 shows data on added value (sum of wages, profits and rents) provided by the GSO for the same classification.<sup>8</sup> Further analysis is on-going, but if we think of this as a snap-shot of a 'disequilibrium', with factors of production guided by market and other signals, then this does not suggest that manufacturing is a 'low point' into which resources will flood. Rather, it is rather similar to sectors such as 'trade and minor repairs', 'construction' and 'hotels', in which large employment gains are

8 I have not yet attempted to match the value-added data with data on average wages in these various sectors.

occurring and where the amount of value added per capita is well above that of agriculture. The significant 'low points' (leaving aside mining) are 'electricity, gas and water' (which includes air conditioning), 'financial intermediation' and 'real estate'. Note that the mass public services (education and health) are poor, but keeping up, and that as labour pours out of farming per capita, value-added there has kept up quite well to the national average.

**Table 4. Value-Added ('Productivity') of Employed Work Force, 2000 and 2014 (prelim) (in million VND Đồng per person)**

Sector	2000 VND	2014 VND	Change A. Ratio	B. Rank
Agriculture, forestry and fishing	4.4	28.6	x 6.5	2
Mining	166.6	1,683.3	x 10.1	1
Manufacturing	23.1	70.0	x 3.0	10
Electricity, gas and water (*)	169.2	652.2	x 3.8	6
Construction	22.7	60.7	x 2.7	11
Trade and minor repairs	16.1	58.3	x 3.6	7
Hotels and restaurants (**)	20.9	64.2	x 3.1	9
Transport, storage and communications (***)	14.8	75.2	x 5.1	3 =
Financial intermediation	108.4	352.1	x 3.3	8
Science and technology (#)	124.7	204.2	x 1.6	12
Real estate, etc.	300.0	1,278.6	x 4.3	4 =
Public administration and defence (2000)	32.1	n/i		
Administration and support services (2014)	n/i	262.1		
Education and training	14.9	64.9	x 4.3	4 =
Health and social work	26.6	134.4	x 5.1	3 =
Recreation, culture and sport	19.4	80.7	x 4.2	5
Party, mass organisations and associations (2000)	9.6	n/i		
Party, mass organisations, defence and security	n/i	62.5		
Community, social and private household (##)	21.9	32.9	x 1.5	13
Other service activities	n/i	85.6		
TOTAL (whole economy)	11.7	74.7	x 6.4	

Note: 'n/i' = 'not included'. (\*) – includes air conditioning. (\*\*) In 2000, called 'Hotels and restaurants'; in 2014, category is 'Accommodation and food service activities'. (\*\*\*) In 2014, I have combined 'Transportation and storage' with 'Information and communication'. (#) For 2014 I have given the entry for 'Professional, scientific and technical activities'. (##) I am not sure how this data was created.

Source: GSO 2008: Tables 17 and 23 and GSO 2015: Tables 53, 54 and 62.

It is striking that the ‘industrialisation’ story has had a long life. World Bank teaching texts that are currently valid (that is, on their website), such as World Bank and Soubbbotina (2000), argue that:

Everything that grows also changes its structure. Just as a growing tree constantly changes the shape, size, and configuration of its branches, a growing economy changes the proportions and inter-relations among its basic sectors—agriculture, industry, and services and between other sectors—rural and urban, public and private, domestic- and export-oriented. [...] Are there common patterns in how growing economies change?

As income per capita rises, agriculture loses its primacy, giving way first to a rise in the industrial sector, then to a rise in the service sector. These two consecutive shifts are called industrialization and postindustrialization (or “deindustrialization”). *All growing economies are likely to go through these stages.* (50–51; emphasis added)

It would be interesting to study such beliefs, which clearly, and without any real sense of the analytical choices being made, use organic metaphors that apparently have a very long history (Nisbet 1969; Fforde 2016a).

However, recent World Bank *World Development Reports* from this decade make little mention of industrialisation per se. Compare the following, from the 2009 WDR:

Industrialization brings with it a rapid process of urbanization—new cities are born, and existing cities expand. As people crowd into these cities at a faster rate than their boundaries expand, population and economic density increase. Quite early in a country’s development, this leads to a hierarchy of places. (WDR 2009: 57)

It would seem that the basic ‘production’ metaphor of economic change (‘turning stuff into stuff’) does not fit at all comfortably with situations in which services sectors are not in the main slow-growing low-productivity areas of the economy, but in fast-growing sectors where per capita value-added is relatively high, thus attracting resources to them (land, labour and capital) and having enough value-added to be part of a rapid growth outcome when they are producing – as they often are – half or more of GDP.<sup>9</sup> As far as I can ascertain, how this happens has only been very

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9 For economists, this metaphor clearly implies a state of continuous dynamic disequilibrium, in which factor prices vary between sectors, so resources move away from sectors where factor returns are low, so that the ‘law of one price’ does not hold.

weakly theorised, although Sheehan (2008) is a good start. In applying a model originally created to examine industrialisation, Sheehan (2008) stressed the importance of three factors: fixed costs in services, so that producers often experience falling unit costs as output increases; pecuniary externalities, so that increased wages and employment in services stimulate demand for services output; and something of a ‘dual economy’, so that wages in the services sector are ‘kept down’ by lower wages elsewhere, such as rural areas.

## Explanatory Narratives

The economic history of Vietnam since the growth acceleration of the early 1990s is still to be written. A key issue is the role of policy, as a number of economic studies have argued that, despite heavy rhetoric from the CPV asserting the importance of their policy choices, the pattern of change in the Vietnamese economy appears relatively uninfluenced by policy. Pham et al. (2008) concluded:

The result from three national IO tables [give] strong support for the evolutionary movement of Vietnamese economy, or in our terminology, a bottom-up process, in which *Doi Moi* is a critical point [sic] marks the shift of Vietnamese economy from planned economy to market oriented one. Hence, we could say integration in to [sic] the international market is inevitable and domestic final demand, through its impact of [sic] consumption, investment and export, play a vital role not only in the wealth of [sic] nation (gross output) but also in improvement of welfare (GDP). (Pham et al. 2008: 33; Emphasis as in original)

Giesecke and Tran (2008) studied the period from 1996 to 2003 and concluded:

In our story, we find rapid growth in GDP to be due to productivity and labour force growth. [...] Our results downplay policy reforms (such as the introduction of the VAT and reductions in trade taxes) as important explicators of rapid growth in trade and GDP. (Giesecke and Tran 2008: 26–27; emphasis added)

Political scientists looking at the value to businesses of political connections have reached similar conclusions:<sup>10</sup>

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<sup>10</sup> As I mentioned, Gainsborough (2007) argued that politics had by the mid ‘noughties’ ceased to have much to do with policy differences, and was instead about factional in-fighting and spoils. It is possible that a characteristic of Vietnam’s contemporary political economy is that rents are not preserved, and are

[politically c]onnected firms are actually not very different from the rest of the private sector. They have very similar investment and profit levels and on average have seen similar levels of expansion over the past year. Connected firms have slightly larger employment, but not much. (Malesky and Taussig 2009: 15)

Counter-intuitively, the role of the state is not found to be so important here. Since Vietnam reached middle income status in 2009, however, experts have flagged various concerns. These include:

- Weak development of value-added in higher technology sectors.
- The problem of transition from extensive growth, linked often to the 'middle income trap', where increased factor productivity is required to maintain growth.
- How to continue with rapid growth in the face of poor public goods production; the Vietnamese press has long been full of stories about corruption and shortcomings in public education and health care.

These issues require that 'policy matters'; that, contrary to Gainsborough's analysis, national sovereignty be deployed into the devising *and implementation* of policy. Gainsborough remarked that there is "always someone who can potentially stand in your way" (2007: 179). If we view the CPV as a ruling party very much influenced by Soviet thinking, then it was made quite clear in the USSR during the political reconstruction after the death of Stalin, as it was before, that national sovereignty lies with the Party. If there are severe problems with making policy matter, then, as Hinsley argued, this amounts to a classic instance of a situation where relations between rulers and ruled will be under pressure to change. As I have argued elsewhere, the central issue is the 'Land without a King' phenomenon: the Party can rule hegemonically but it cannot govern, and policy cannot be deployed to the advantage of rulers and ruled alike (Fforde 2011, 2013). This comes down to a matter of domestic sovereignty, which, as Hinsley (1986) argued some time ago, is better seen as a political concept rather than one deployed by political scientists:

If we wish to explain why men have thought of power in terms of sovereignty we have but to explain why they have assumed that there was a final and absolute authority in their society – and why

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instead 'switched', dissipated through various channels. Corrupt state officials continue to manage organisations that receive state support, SOEs are protected and uncompetitive, public health and education are weak, etc. To 'make policy matter', political change is needed (as Leung argued).

they have not always done so [...]. (Hinsley 1986: 1, and quoted in Fforde 2013: 8)

The concept has been formulated when conditions have been emphasizing the interdependence between the political society and the more precise phenomenon of its government. It has been the source of greatest preoccupation and contention when conditions have been producing rapid changes in the scope of government or in the nature of society or in both. It has been resisted or reviled – it could not be overlooked – when conditions, by producing a close integration between society and government or else by producing a gap between society and government, have inclined men to assume that government and community are identical or else to insist that they ought to be. In a word, the origin and history of the concept of sovereignty are closely linked with the nature, the origin and the history of the state. (Hinsley 1986: 2, and quoted in Fforde 2013: 16)

This raises the question of what can be said usefully about such matters of “preoccupation and contention”, when the data suggests that Vietnamese economic change – a major part of the country’s development process – is associated with a major contribution from services, and not that much from manufacturing industry.

## Contrasts between Actual Economic Change and Various Normative Views

### They All Thought It Was about Industrialisation (or That Is What They Said)

In the 1990s there was considerable agreement amongst those providing advice and doctrinal options to the CPV that economic development was industrialisation. I think this had been true for the French, the US in South Vietnam before 1975, the USSR (which was the main source of economic assistance up until around 1991), and Western aid donors as they came in to Vietnam in greater numbers in the early 1990s. After all, the World Bank’s *Economic Miracle* study came out in 1993. We see this reflected in the two slogans of IM and SOME.

The thorny aspect of policy advice in the 1990s is that it helped push the CPV into something of a political trap in encouraging support for the state sector, which by 1990 was the key hoped-for site of industrialisation (Fforde 2007).



The political foundation of the Soviet development model (Fforde and Paine 1987) was the creation of state industry and SOEs, whose workers were given high priority and, at least in the early stages, whose managers very well paid compared to workers. Farmers were controlled through the cooperatives; as McAuley (1977) pointed out, this meant that the Party's position vis-à-vis the two sectors was very different, as the plan's control over SOEs gave SOEs a far closer relationship with political power than had farmers (McAuley 1977). Much of the history of the 1980s is to do with how SOEs – rather, the changing desires of the 'state business interest' within the Party/State used this, along with money created by market-based activities, to push the centre of gravity within the Party towards one that supported SOE commercialisation, marked by the U-turn of draft Decree 306-BBT in early 1986. Throughout the 1980s, property rights generally moved down from planning organs, giving SOEs greater freedoms (Fforde 1993, 2007). In the 1990s, however, SOE freedoms declined as property rights moved back up, towards the cartels (*tap doan*) and various state structures (Fforde 2007).

Once state business interests had gained such power, maintaining the Party's position against 'Anti-Party' forces logically required the development of policy to regulate and orient powerful economic actors; in other words, working through some hierarchy of ideas – strategy, tactics, programmes, etc. – that deployed the relative autonomy of the state and, in so doing, preserved the Party's capacity to act. As mentioned, Gainsborough argued that policy-based political action essentially no longer existed by the mid-'noughties'. Indeed, one can treat the first of the three periods I outline above (ca. 1991 to ca. 1997) as a period in which residual authority flowed like sand between the CPV's fingers and domestic sovereignty eroded.

Thus, rather than being a period that securing some correct analysis of the emerging evidence for the relatively low importance of industry in the country's growth path, the 1990s can be seen as a period in which support for the state sector – largely based upon investments in industry, as the Soviet model said – stymied strategic re-thinking. The World Bank, the most powerful of the new donors, did not help much.<sup>11</sup>

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11 The focus of the Bank's fundamental interests in lending rather than reform is shown by the tactical decision, taken in I think 1991, to abandon as its main counterpart the reformist Central Institute for Economic Management Research (CIEM) in favour of the highly conservative State Planning Commission. At the time I was working in the Swedish development cooperation programme and key Bank staff were well aware of the politics involved.

The Comprehensive Poverty Reduction and Growth Strategy (CPRGS – 2002<sup>12</sup>) supported donor agreement to a large World Bank lending programme, and public agreement between the Bank and its owners, and the Party on development strategy. To quote:

The overall objective of Vietnam for the 2001-2010 period is to bring about a significant improvement in the people's material, cultural and spiritual life, lay the foundations for the country's industrialization and modernization, build a prosperous people, strong country and a just, equal, democratic and civilized society, and establish the institutions of a socialist-oriented market economy, protect and preserve the country's natural resources and national culture for future generations. (GoV 2002: 6)

Also:

Slow industrialization and urbanization cannot attract redundant work forces. (GoV 2002: 15)

And:

The process of industrialization and urbanization has increased the inflow of unregistered migrants from rural areas, mainly those of working age and children. (GoV 2002: 20)

The unthinking belief in industrialisation is epitomised by:

To successfully achieve the [...] objectives, the following tasks need to be well performed:

Improve the system of legal institutions and policies and mechanisms to make them suitable to the country's industrialization and modernization. (GoV 2002: 53)

Such thinking committed the Party, and its main donor partners, to a view of the nature of economic change that did not imply major changes in sectoral priorities, and thus weakened the Party's ability to maintain distance from the drivers of change in the 1980s, commercialising SOEs.<sup>13</sup>

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12 Thinking and associated knowledge production started perhaps five years earlier.

13 Responsibility for this lies mainly with the World Bank. I was told by a JICA staff member in the mid 'noughties' that an early draft of the CPRGS included a footnote that this had been prepared on the request of the Bank (it was certainly in large part funded by it and its supportive bilateral donors), and that the Bank had "told the Vietnamese to take it out".

Through the 1990s, some limited research suggested that SOEs experienced a reduction in their autonomy compared with the trends of the 1980s (Fforde 2007). However, this change was not expressing any rational policy strategy because, as we know from some detailed reports to the National Assembly in the late ‘noughties’, regulatory authorities actually knew very little, in terms of reliable data, about SOEs. Without reliable data, and the authority that can require it to be provided, the Party’s position appears, as Gainsborough described it, as a site for political conflicts over the division of spoils, so that policy and its logic cannot be deployed to deal with political issues.

A National Assembly Study Team reported end of the ‘noughties’ on the state of policy towards SOEs (Study Team 2009). To quote Fforde (2009):

[...] the opinion of the Study Team that the exercise of state sovereignty through the state’s formal ownership rights over these businesses is – essentially – incoherent (the language is relatively diplomatic):

“The division of tasks and responsibilities that realise the rights and duties of the state as owner, regarding Groups and General Companies are scattered and divided (phan tan, cat khuc). This leads to a situation where there is no organisation that bears principal responsibility for the management of capital and assets at [these units ...] and no organ that bears principal responsibility to monitor, analyse and evaluate deeply and in reality on the meeting of targets and responsibilities of regarding state ownership that are allocated to Groups and General Companies. Ministries and People Committees pretty much do not adequately grasp information on the activities of these units. The Ministry of Finance carries out state financial management but only participates indirectly in the management of capital and assets via the reports of the Ministries and People’s Committees and of the units themselves” (Study Team 2009: 20).

This supports the idea that, in any common-sense use of the term, these units, despite being nominally state-owned, holding vast assets and being major contributors to the economy, are out of control. (Fforde 2009: 88)

A rather exhaustive study of Vietnam’s SOEs concluded that SOEs are, in many ways, best seen as “virtual share companies”, responsive to the interests of those who control them in various ways (the “virtual share-

holders”) rather than their formal owners (Fforde 2004, 2007, 2014). The trap for development policy in Vietnam, then, was that the state sector poses, and posed, two main problems.

First, as such, the state sector was and is not an example of state property; rather, it is a form of private property, controlled by interests (not all interests) within the Party/State. As Greenfield wrote many years ago:

There can be no doubt that the fiscal crisis of the state is important in this respect. But the reform of state sector enterprises has intensified rather than resolved this crisis. It is characterized by the private appropriation of public resources on a massive scale, where the state acts as the instrument of this appropriation. The dismantling of the “bureaucratic centralism and subsidy system” has concentrated power in the hands of incumbent state enterprise managers and the most powerful segments of the party-state bureaucracy [...]. (Greenfield 1994: 206)

Greenfield wrote from a ‘hard Left’ perspective, but his sources are impeccable and dove-tail well with later studies such as Angie Tran (2013). Leung (2015), quoted above and with a radically different perspective, agreed. The central issue here is the political and therefore developmental risks associated with a situation in which such elements of the Vietnamese economy are deemed to have a privileged role.

Second, the state sector and industrialisation was in many ways the ‘child’ of both Soviet and World Bank development doctrines that, for quite different reasons, have lost their authority (the former due to the collapse of the USSR, the latter due to the evident fact that industrialisation is no longer a dominant part of the aggregate picture of economic change in developing countries). Therefore, under current doctrinal illumination, industrialisation as ‘the’ development strategy appears anachronistic.

I now turn to the two slogans: IM and SOME.

## Industrialisation and Modernisation (IM)

Some might imagine that a society whose economy is globalising rapidly and evolving fast towards a range of economic activities, of which services seem to be dominant, would tend to not be well-suited to slogans. However, we find a continued use of conveyor-belt ideological work

centred upon the ideological department of the Party.<sup>14</sup> It follows from this that references to IM are structured and specific. For example, in a statement from the Party's newspaper *Nhan Dan* on its application to university education dated 19 August 2015,<sup>15</sup> we find (after a statement about the slogan's alleged universal meaning):

In Vietnam, the 7<sup>th</sup> Plenum of the VIIth Party Central Committee (7/1994) approved the line (*duong loi*) of industrialising and modernising the country. Our Party laid down: in the process of development of our country in accordance with a socialist direction, industrialisation and modernisation are means and formula to attain the goal of a prosperous life that is daily better and better, for the liberation and all-round popular development [...] [Section 1].

Following the same line of research, what is clearly an on-line crib for examinations replies to the question "what is the theory (*ly luan*) of industrialisation and modernisation?" as follows:<sup>16</sup>

The success of industrialisation and modernisation of the national economy is the definitive factor in the success of the road to socialism that the Party and our people have chosen. Mainly because of this, industrialisation and modernisation of the national economy is viewed as the central task of the entire period of transition to socialism in our country [...].

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- 14 Thus the formal job descriptions of the members of the 2016 Politburo includes, at # 8, Đinh Thế Huynh - Trưởng ban Tuyên giáo Trung ương (Head of the Central Propaganda and Education Department). Details of its responsibilities can be found online: <<http://dangcongsan.vn/tu-lieu-van-kien/cac-ban-dang-tw/doc-492220153253656.html>> (9 March 2016). These include examination and approval (*tham dinh*) of all projects and documents related to the Party's position (*Chu trương*) of Party, Mass Organisations, etc. before they are submitted to the Politburo [Section 2.2]. The same reference, from the VCP website, provides the Department's internal structure.
- 15 See <[www.nhandan.com.vn/giaoduc/dien-dan/item/27199202-cong-nghiep-hoa-hien-dai-hoa-va-yeu-cau-doi-voi-giao-duc-dai-hoc-hien-nay.html](http://www.nhandan.com.vn/giaoduc/dien-dan/item/27199202-cong-nghiep-hoa-hien-dai-hoa-va-yeu-cau-doi-voi-giao-duc-dai-hoc-hien-nay.html)> (9 March 2016).
- 16 See <[www.wattpad.com/2927500-l%C3%BD-lu%E1%BA%ADn-v%E1%B%81-c%C3%B4ng-nghi%E1%BB%87p-h%C3%B3a-h%E1%BB%87n-%C4%91%E1%BA%A1i-h%C3%B3a-g%E1%BA%AFn-v%E1%BB%9Bi](http://www.wattpad.com/2927500-l%C3%BD-lu%E1%BA%ADn-v%E1%B%81-c%C3%B4ng-nghi%E1%BB%87p-h%C3%B3a-h%E1%BB%87n-%C4%91%E1%BA%A1i-h%C3%B3a-g%E1%BA%AFn-v%E1%BB%9Bi)> (9 March 2016).

So what is industrialisation and modernisation?

The 7<sup>th</sup> plenum of the VIIth Central Committee issued the conception:

Industrialisation and modernisation is a process of fundamental and all-rounded change of production, business, services and social and economic management from the predominant use of artisanal labour to a predominant use of labour power<sup>17</sup> with technology, methods and ways of working that are advanced, modern and rely upon the development of industry and scientific – technical progress to create high labour productivity.

So from a theoretical and practical view industrialisation and modernisation are a necessary historical process that Vietnam must go through change our country into an industrial country [...] [1].

This strategic slogan appears, historically, to come from 1994, but is clearly little more than a repetition of earlier ideas. If we look at the 7<sup>th</sup> Plenum Resolution itself,<sup>18</sup> Resolution # 7 discusses, close to the start, the concept in classic Marxist-Leninist terms, in Section 1 *The state of industry, technology and the working class*. Despite many successes:

Industry, artisanal industry and technology in our country remain *weak*. By 1993 the proportion of industry only amounted to 20% of total national production and 11% of the workforce. Manufacturing and processing are a very small proportion. The capacity of industry to equip the national economy<sup>19</sup> is still insignificant. [...]

*The Vietnamese working class* through our vanguard Party has led our revolution for more than half a century and is now once again taking the lead in the task of reform and industrialisation and modernisation [Section 1]

Of course, the problem with this is that, taken to its logical conclusion, it would have to be concluded that the apparent economic success has been a failure, as industry's share of GDP has (as examined above) fallen when mining is excluded; therefore, the economic growth processes cannot fairly be called 'industrialisation'. This is.

Nonetheless, what can be made of the concept of 'modernisation'? Early uses of the term in official documents seem to reflect a simple idea

17 Sic. The term derives from Marx's view that one hires out one's labour power, not oneself, and is related to his view of the nature of commodities.

18 See <<http://dangcongsan.vn/tu-lieu-van-kien/van-kien-dang/nghi-quyet-bch-trung-uong/khoa-vii/doc-2925201510081046.html>> (9 March 2016).

19 That is, to produce Group A industrial goods; see above.

of matching what is found in ‘developed’ countries, and the above-mentioned Plenum Resolution offers no empirical referent beyond this.

## A Socialist-Oriented Market Economy (SOME)

### *Origins*

This strategic slogan appears historically to link simply to Soviet development doctrine, often known as Marxism–Leninism. In this schema, progress towards communism via socialism is gauged by the emergence and dominance of socialist “relations of production” (Stalin 1951). Since their progressive nature is shown by their (actual) dominance by the Party, the Party’s “leading role” is manifest in forms such as SOEs and collectives (cooperatives). As mentioned, Party leadership of SOEs is, in this schema, rather different from that of collectives. The former relies largely upon the state, while the latter relies upon the ability of local Party Committees and cells to control appointment to collectives’ managements and to issue them with instructions that, in Leninist fashion, are to “concretise” general instructions coming from high levels. Decree # 10 of 1988 removed hundreds of thousands of cadre positions in rural areas when it, in effect, accepted a severe shrinkage in the scope and existence of cooperatives. Nowadays, this part of the “socialist economy”, which also used to include other cooperatives in areas such as trade and light industry, still exists but has a very limited scope in the interests of Party organisations in implementing the Party’s “leading role”. For SOEs, in stark contrast, there remains a central Party “block” (*khối*) of large SOE groups, each of which contains Party cells.<sup>20</sup> However, as argued above, these are the facade of complicated relationships that do not amount to clear ownership, either in terms of the formal State regulations or the actual powers of those sharing in commercial profits.

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20 That is, those directly under the ‘bloc’; they each in turn had their own constituent elements, usually SEs. Taken from <<http://doanhnghieptrunguoc.vn/>> June 2014 – the Main Page of the site is entitled “The Party Committee of the Central Business Bloc” (“*đảng ủy khối doanh nghiệp trung ương*”)” (Fforde 2013: 37–38).

## *The Notion as Doctrine*

The same source cited above, which gives standard answers suitable for those taking tests on it, states:<sup>21</sup>

**The nature of a socialist-oriented market economy in our country:**

- It is not an economy managed according in the style of a centralized bureaucratic subsidised system
- It is not a free market capitalist economy
- It is not yet entirely a socialist-oriented economy. This is because our country is in the period of transition to socialism, and there is still a mixture of, and a struggle between, the old and the new, so there simultaneously are, and are not yet sufficiently, socialist factors [1].

It is reasonably obvious from this that central tensions are those between (1) the notion that it is market forces that should drive development, (2) the goal of such development being industrialisation and modernisation, and (3) the simple fact that after a generation of rapid and general popular use of a market economy and major economic change, the economy has *not* industrialised. The evidence from analysis of the state sector suggests that the kernel of the matter is to be found there, and this is reflected in debates.

## *Debates around the Concept*

To start with, it seems rather obvious that a regime that has not modernised its political foundations faces the fascinating question of how to live with an apparent economic success that its core developmental slogans, reasonably interpreted, should deem a failure: Vietnam has not industrialised. The ‘ghost in the argument’ here would seem to be that Party rule in fact does not, evidently, rely upon the state sector, that industrialisation and the state sector are clearly not driving development, that economic growth has been fast, and that the state sector is not subject to coherent political control anyway.

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21 See online: <[www.wattpad.com/1068814-ch%C6%B0%C6%A1ng-13-kinh-t%E1%BA%BF-th%E1%BB%8B-tr%C6%B0%E1%BB%9Dng-%C4%91%E1%BB%8Bnh-h%C6%B0%E1%BB%9Bng-x%C3%A3-h%E1%BB%99i-ch%E1%BB%A7](http://www.wattpad.com/1068814-ch%C6%B0%C6%A1ng-13-kinh-t%E1%BA%BF-th%E1%BB%8B-tr%C6%B0%E1%BB%9Dng-%C4%91%E1%BB%8Bnh-h%C6%B0%E1%BB%9Bng-x%C3%A3-h%E1%BB%99i-ch%E1%BB%A7)> (2 August 2016).



Reports in 2015 of the drafts of the political report to the January 2016 XIIth Congress argued that a new definition of SOME was forthcoming (Viet Ha 2015), and interviewed a leading Vietnamese reformist, Nguyen Quang A, who argued that there was not real change. However, in mid-February, after the XIIth Congress, Nguyen Thanh Tuan argued in the Party's theoretical journal that there had been an easing of the concept's leaning towards the state sector (Nguyen Thanh Tuan 2016).

This interpretation is supported by the Political Report to the XIIth Congress, read there by the General Secretary, Nguyen Phu Trong (Nguyen Phu Trong 2016). The report mentions the 'leading role' of the state sector only once (Section II), whilst the SOME is mentioned eight times. In an extended passage on the SOME (Section I) the emphasis is upon use of policy, legality, regulation, etc. and the "leading role" is not mentioned. However, IM is still seen as a sign of progress and is mentioned nine times. Production relations (*quan hệ sản xuất*) are mentioned twice and not defined as the state and collective sectors.

## Conclusions

It is useful to remember that the economic success of Vietnam since the early 1990s has been a surprise to many. Structural change away from agriculture but without industrialisation is even more unexpected. Also unexpected was the transition of the state sector away from the largely healthy processes of bottom-up commercialisation of the 1980s, which created the supply capacity that allowed Vietnam to first avoid negative output shock as Soviet aid was removed and then drive the first stages of rapid growth in the 1990s.

Accommodation of foreign-invested businesses and an emergent registered private sector in the 'noughties', with macroeconomic stability until around 2007, suggests that the role of the widely unappreciated Nong Duc Manh (Party general secretary, 2001–2011) is as contradictory as that of the also widely unappreciated Le Duan (in office 1960–1986). After the fall of Le Kha Phieu in 2001, the next six years under Nong Duc Manh saw a consolidation of Vietnam's service-oriented globalisation, fast growth of employment in manufacturing, and preparation for transition to middle income status in 2009. Throughout this period the Party required students and others, if they wanted high marks, to explain the validity and correctness of SOME and IM, when the reality increasingly showed that poverty was falling quickly, the country was growing quickly, that industrialisation was not occurring, and it was a misnomer to call the state sector the 'state'. If we take a step back, this is readily

seen as the stuff of a political community in motion, where economic success is an important part of the story.

The XIIth Congress seems to show that lessons have been learnt. These are:

1. It does not seem to matter what you call the animal, so long as it catches mice. The Vietnamese economy has been part of considerable progress in the 25 years since a market economy clearly emerged. It is still not really clear why this happened, not least as services, and the way in which they fitted into the wider economy has not been studied to a great degree. Puzzlement never killed anybody. Now what?
2. To feed, nurture and therefore catch more mice, perhaps at lower cost, policy needs to be made to matter and must also to be located within reasonably convincing narratives about what is happening, why it matters and what might be done about it. IM does not seem to be part of such narratives, but SOME does, especially if the old Marxist–Leninist references to “relations of production” and thus the rather odd justification for the “leading role of the state” are prevented from climbing in, making it harder for the CPV to get its act together and preserve its regime through policies the population like, such as reform of public health and public education. That would appear to be a more clever way of staying in power than going after dissidents and pressuring free trade unions.

Finally, there is a clear need for further research into two areas. The first is to generate plausible explanations of patterns of change in the Vietnamese economy since the early 1990s. The second is the sociology and politics of what seem to have been strong and likely misplaced beliefs in industrialisation, both in reality and normatively. For both, a decent literature survey is sorely needed.

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